

# AUGUST PRICE DEVELOPMENTS



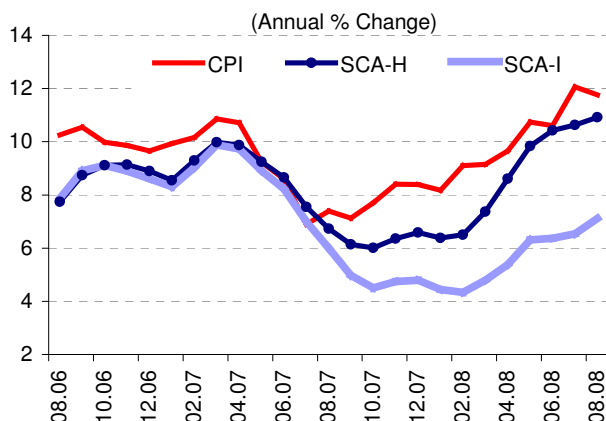
Central Bank of Turkey

4 September 2008

## SUMMARY...

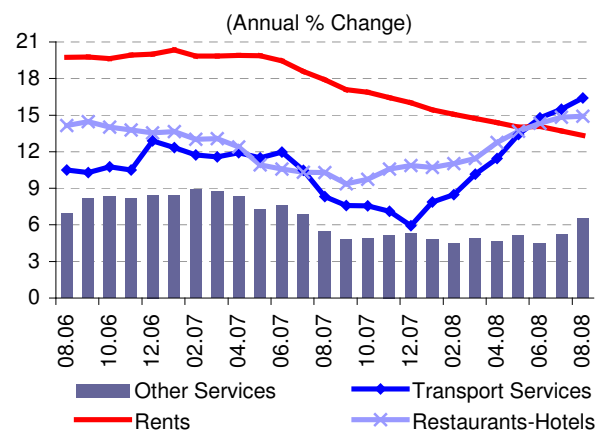
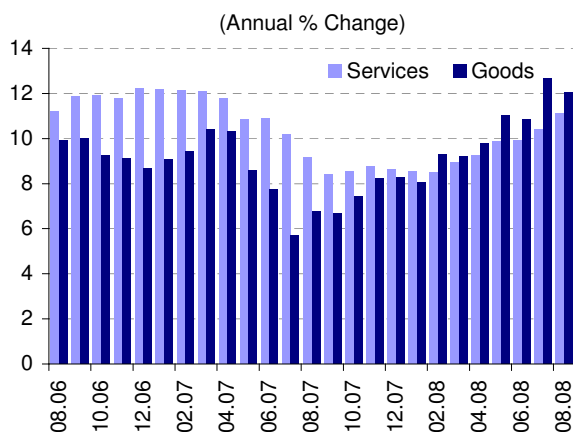
In August, consumer prices decreased by 0.24 percent, bringing annual inflation down to 11.77 percent. The annual rate of increase in processed food prices began to slow, as expected, whereas unprocessed food prices saw further correction. The retreat in oil prices helped ease fuel prices, while the upsurge in natural gas and water rates delayed the reduction in annual energy inflation. The contribution of food and energy prices to annual inflation was down to 7.69 percent in August. Annual rental inflation remained on a steady downward path, while lagged impacts of supply shocks continued to put upward pressure on prices of transport and catering services. The widely cited core CPI indexes, denoted by H and I, went slightly up year-on-year on the base effect, but in seasonally adjusted terms, they point to a downward trend. Inflation is expected to edge further down in the upcoming period if oil and food prices continue to perform well.

## ...EVALUATIONS...



In August, consumer prices fell by 0.24 percent, pushing annual inflation down to 11.77 percent. The CPI index excluding energy, unprocessed food, alcoholic beverages, tobacco products and gold (SCA-H) rose by 0.3 points to 10.92 percent year-on-year. With a further exclusion of processed food prices, the index (SCA-I) went up 0.6 points to an annual rate of 7.12 percent. Both indicators were up year-on-year due to the base effect.

Prices of goods dropped by 0.61 percent, while prices of services rose by 0.81 percent. Annual inflation increased to 11.10 percent in services and decreased to 12.03 percent in goods.



Food and energy prices continued to put pressure on prices for catering and transport services, albeit at a slower rate than in previous months. Prices of transport services surged by 1.16 percent amid rising local fares, while catering prices went up by 0.82 percent. The annual rate of increase in prices for communication services was up 4 points to 7.44 percent on the back of the base effect and soaring landline call rates, and was the main driver of the rise in annual services inflation in August. Meanwhile, rental inflation remained on a steady decline.

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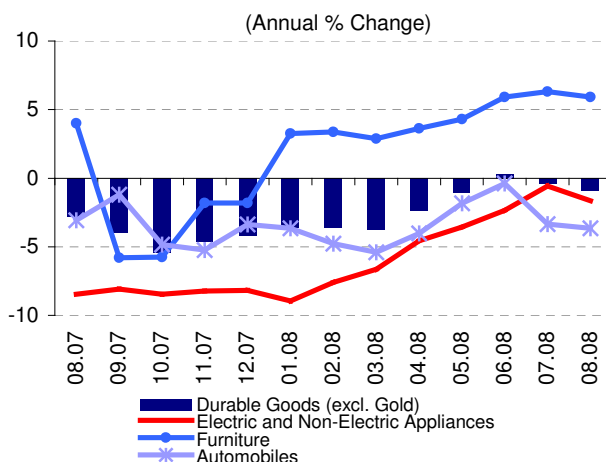
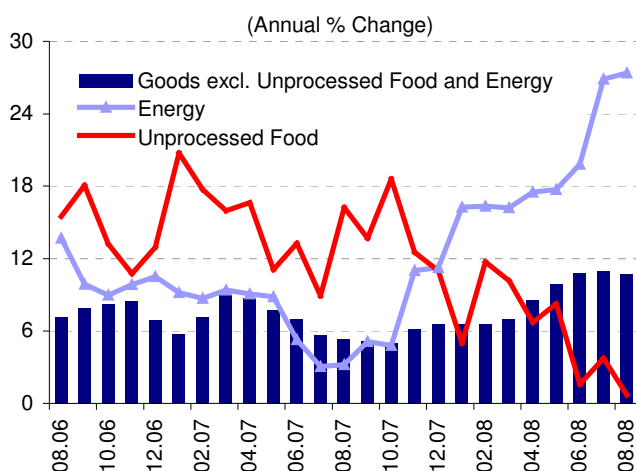


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Despite the sizable drop in fuel prices, energy prices increased by 0.47 percent amid rising prices of natural gas, water and solid fuels, pushing energy price inflation up to an annual rate of 27.38 percent.

Prices of goods excluding energy and food fell by 1.7 percent, and the group's annual inflation remained unchanged from July. The annual rate of increase in clothing prices surged to 3.7 percent, while prices of pharmaceuticals rose by 4.64 percent. The strengthening of the new Turkish lira and the moderate growth in domestic demand brought annual inflation in durable goods (excl. gold) down to -0.91 percent.



Prices for durable goods (excl. gold) dropped by 0.68 percent in August. Furniture prices fell by 0.85 percent, while prices of electric and non-electric appliances decreased by 1.42 percent on falling prices of white goods. Likewise, gold prices were down 11.05 percent month-on-month.

	Monthly Percentage Change		Annual Percentage Change	
	August 2008	August 2007	August 2008	August 2007
CPI	-0.24	0.02	11.77	7.39
<b>1. Goods</b>	<b>-0.61</b>	<b>-0.03</b>	<b>12.03</b>	<b>6.77</b>
Energy	0.47	0.07	27.38	3.23
Unprocessed food	-1.03	1.99	0.68	16.24
Processed food	0.70	1.42	24.61	9.23
Goods excl. energy and food	-1.70	-1.68	4.19	3.49
Durable goods	-1.62	-0.02	0.61	-3.20
excl. gold	-0.68	-0.20	-0.91	-2.80
Semi-durable goods	-1.26	-1.96	16.74	4.21
Non-durable goods	0.15	1.28	11.84	11.15
<b>2. Services</b>	<b>0.81</b>	<b>0.18</b>	<b>11.10</b>	<b>9.16</b>
Rents	1.08	1.41	13.32	17.92
Restaurants-Hotels	0.78	0.71	14.92	10.30
Transport	1.16	0.38	16.40	8.33
Other services	0.60	-0.69	6.55	5.43

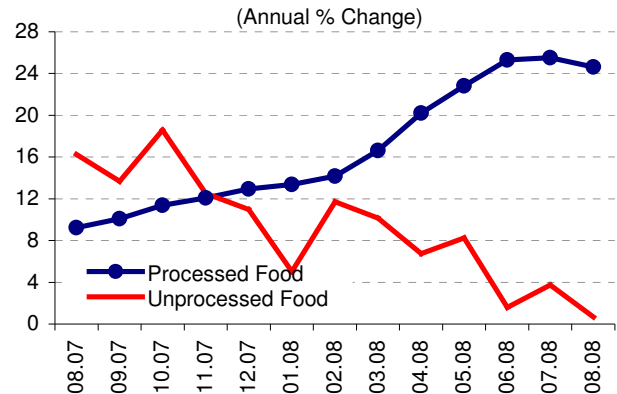
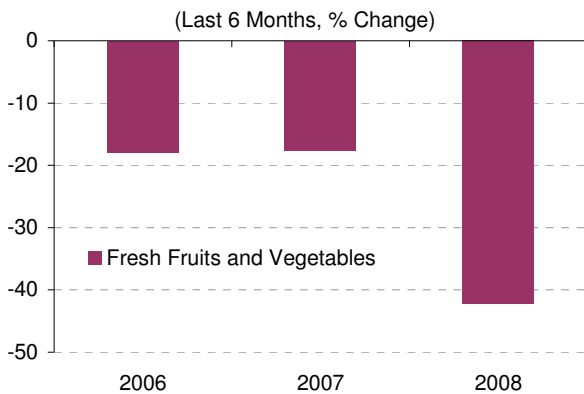
Source: TURKSTAT, CBRT.

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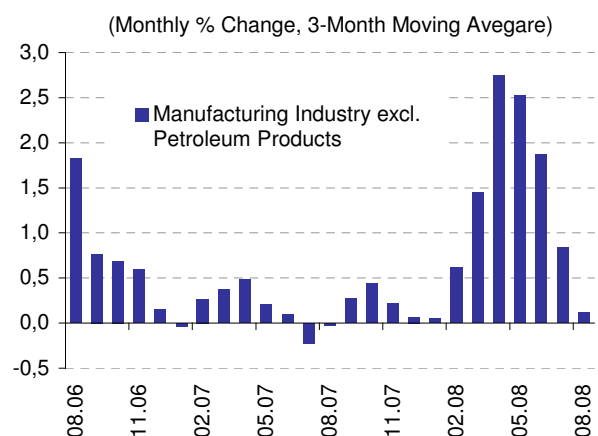
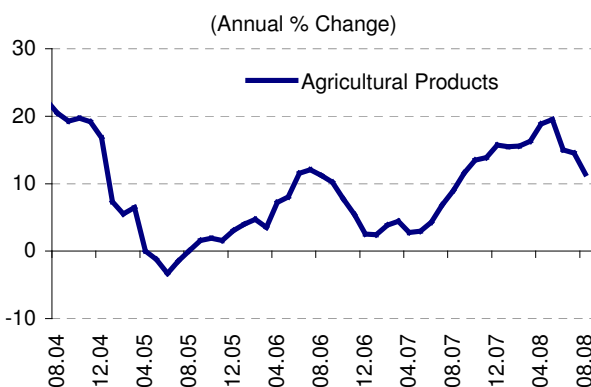
The annual growth rate in unprocessed food prices slowed down to 0.68 percent in August, driven by prices of fresh fruits and vegetables that went down dramatically during March-August 2008 compared with a year earlier and hit an annual inflation rate of -18.03 percent. However, drought conditions continued to put upward pressure on pulse prices.

The relative slowdown in processed food prices in July intensified in August and the group's annual inflation came down to 24.61 percent, which was particularly boosted by favorable prices of bread and grains. The rate of increase in processed food prices is expected to edge further down in the remainder of the year.

## ...PPI...

PPI decreased by 2.34 percent in August to 14.67 percent year-on-year. Falling prices of agricultural and industrial products contributed 0.37 and 1.96 percent, respectively, to the index's performance.

Manufacturing industry prices were down 3.14 percent on the back of a dramatic drop in prices of petroleum products and base metals. Excluding base metals and petroleum products, however, manufacturing industry prices declined by only 0.23 percent. Having climbed sharply since January, base metal prices dropped by a remarkable 10.09 percent in August. Prices of plastic and rubber products, chemicals, food, clothing, printing and publishing, and furniture were up from July, whereas prices in other industries were down.



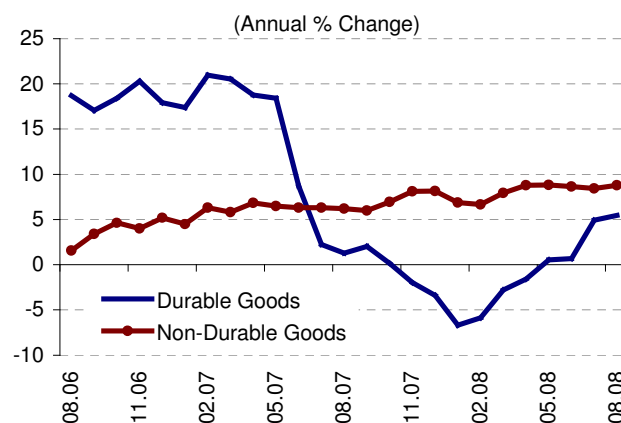
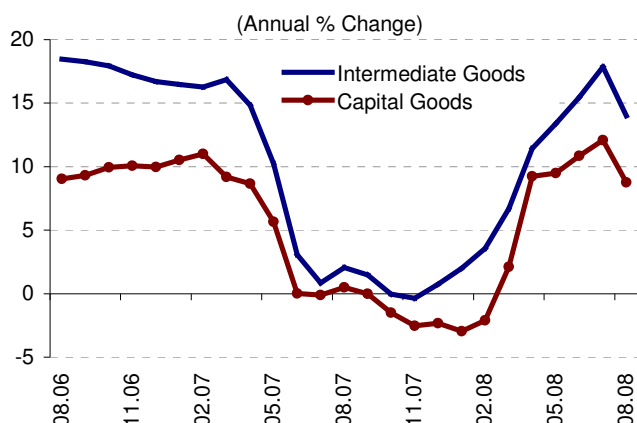
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As reported by the PPI analysis based on MIGS classification, prices of durable and non-durable goods were on the rise in August, whereas prices for all other items went down. Prices of durable goods surged on higher prices of white goods, while the increase in prices of non-durable goods was driven by rising apparel manufacturing prices. Moreover, base metal prices pulled prices of intermediate goods down in August, while energy prices were dragged down by lower prices of petroleum products. The surge in electricity and natural gas prices, however, curbed the downtrend in energy price inflation.



Changes in PPI based on MIGS Classification

Monthly Percentage Change

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Jan-Aug*
Intermediate Goods Prices	0.06	-1.13	-0.64	0.53	1.18	1.66	4.30	4.90	2.03	1.69	1.42	-2.58	15.37
Capital Goods Prices	-0.22	-0.59	-0.64	0.75	0.44	1.23	2.84	6.71	-0.42	0.32	0.83	-2.54	9.54
Durable Goods Prices	0.23	-0.02	-1.17	-1.90	-2.00	0.90	2.74	0.75	2.60	-0.30	2.13	1.52	8.54
Non-Durable Goods Prices	2.13	1.88	0.84	0.14	-1.15	1.63	0.86	2.08	-0.33	0.02	-0.06	0.45	3.52
Energy Prices	-0.32	-2.94	6.68	-0.86	0.60	7.74	7.85	8.56	5.29	2.06	3.91	-6.19	32.91

Source: TURKSTAT, CBRT.

\*8-month cumulative increase.

## ...TABLES

August CPI and Sub-Items (Change, %)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
CPI	100	-0.24	11.77	0.02	7.39
Food and non-alcoholic beverages	28.63	-0.03	13.33	1.69	12.39
Alcoholic beverages and tobacco	5.00	0.01	6.88	0.00	10.23
Clothing and footwear	8.07	-6.05	3.73	-7.13	6.01
Housing	16.60	2.12	23.56	0.70	9.04
Household equipment	7.42	0.00	7.05	-0.04	6.28
Health	2.54	1.54	0.99	0.13	4.22
Transport	12.59	-1.55	9.69	-0.10	0.93
Communication	4.30	0.45	4.56	-2.92	-3.19
Recreation and culture	2.81	0.24	1.89	0.57	1.37
Education	2.24	0.51	7.28	0.26	7.66
Restaurants and hotels	5.64	0.78	14.92	0.71	10.30
Misc. goods and services	4.16	-2.02	8.90	0.66	1.58

Source: TURKSTAT

August PPI and Sub-Items (Change, %)					
	Weight	2008		2007	
		Monthly	Annual	Monthly	Annual
PPI	100	-2.34	14.67	0.85	3.72
Agricultural	19.84	-1.99	11.46	0.71	8.99
Industrial	80.16	-2.41	15.42	0.89	2.55
Mining	1.62	0.40	30.78	3.31	3.59
Manufacturing	73.33	-3.14	14.32	0.60	1.44
Energy	5.21	5.69	25.09	3.84	18.17

Source:  
TURKSTAT

Price Developments are published within two working days following the announcement of price statistics by the Turkish Statistical Institute (TURKSTAT). Price Developments, which include CBRT's initial remarks on the inflation figures of the previous month, aim to contribute to a sounder interpretation of monthly inflation developments by the public during the period between the announcement of official price statistics and the Monetary Policy Committee meeting.